

## MINUTES

BOARD OF TRUSTEES  
PUBLIC EMPLOYEES' RETIREMENT FUND  
143 West Market Street, Suite 602  
Indianapolis, Indiana 46204

May 18, 1998

### TRUSTEES PRESENT

Richard Doermer, Chair  
Nancy Turner, Vice Chair  
Dwayne Isaacs  
Teresa Ghilarducci (via telephone)  
Steven Miller

### OTHERS PRESENT

Doug Kinser, Executive Assistant to the Governor  
Diana Hamilton, Special Liaison to the Governor for Public Finance  
Mary Beth Braitman, Ice Miller Donadio & Ryan  
Richard Boggs, Burnley Associates  
Kris Ford, William M. Mercer Investment Consulting, Inc.  
Pete Keliuotis, William M. Mercer Investment Consulting, Inc.  
Bill Monroe, William M. Mercer Investment Consulting, Inc.  
Bob Lofland, State Board of Accounts  
Houston Cockrell, National City Bank  
Karen Franklin, National City Bank  
Don Hilt, PERF Retiree  
Mark Webb, PERF General Counsel  
Patrick Lane, PERF Executive Assistant to the Director  
Diann Clift, PERF MIS Director  
Dave Yeater, PERF Controller  
Linda Petro, Recording Secretary

A quorum being present, Chairman Doermer called the meeting to order.

#### 1. OPENING COMMENTS

Chairman Doermer noted that this special meeting of the Board was called to appoint an Interim Director following the resignation of Garth Dickey, as well as to discuss a number of other issues of consequence. Because the notice of the meeting was necessarily very short, Teresa Ghilarducci was unable to be in attendance but participated via telephone.

## 2. STATUS OF UNIT TRUST ACCOUNTING

Mary Beth Braitman, Ice Miller Donadio & Ryan, explained that PERF currently has two wholly different sets of funds, one at National City Bank for the PERF funds and the other at Bank One for the PERF-related funds. With respect to the PERF funds, National City is the custodian and runs the securities lending program with their agent, Chase Chemical. The money managers include fixed passive income, fixed active, and the S&P 500 index fund. There is a single blended rate of return for all the managers in the National City structure. On the Bank One side, there are separate accounts for each of the PERF-related funds. Bank One is both the custodian and the securities lending program agent. Those funds are all invested by Prime Capital Management in a fixed income portfolio. Historically, there have been separate rates of returns established for each plan.

A diagram detailing the current accounting structure (Exhibit A) as well as a diagram depicting a unit trust structure (Exhibit B) were distributed for review. Mrs. Braitman noted that under a unit trust accounting system, all of the plans, but for a couple of exceptions, would be in a National City Consolidated Retirement Investment Fund ("Consolidated Fund"). The securities lending agents would be Chase Chemical and Bank One, but all of the assets would flow through the Consolidated Fund and out to all of the money managers. This would produce a single rate of return for the entire Consolidated Fund. The main thing remaining outside of this structure would be the Pension Relief Fund. There are also a few other miscellaneous administrative accounts (real estate income/property management, etc.) which would remain outside this structure.

To review the Board's objectives in implementing such a structure, there are two: 1) to produce a consolidated rate of return that is the same for all the plans, and 2) to end up with a method that represents a standard industry practice. A great deal of time has been spent working with the State Board of Accounts and National City Bank to analyze what that would be. A unit trust type of system would meet those industry standards as well as allow the Fund's records to be GASBE compliant on an accrual basis thereby enabling the information going to the State Board of Accounts to be consistent without the need for reconciliations from a cash basis to an accrual basis. It would also be AIMR compliant which would provide a consistency of performance and asset data provided by the investment managers. Ultimately, ending up on an accrual basis with trade date information would provide that the information the State Board of Accounts needs, the information the investment managers need and use, and the performance reports would all represent the same standard. Those two objectives will need to be met in a series of two steps, one step being the treatment of the current fiscal year end (07/01/97-06/30/98), and the second step being a permanent accounting system from 07/01/98 and thereafter.

With that said, Karen Franklin and Houston Cockrell, National City Bank, reviewed for the Board the actions they have taken to implement a unit trust process. Mr. Cockrell noted that when agreement was finally reached with PERF as to what needed to be done for the current fiscal year, the goal they had was to tie all of the records back to what was already produced. To do that they needed to produce the unit accounts based on a settlement date process for the investment transactions that were done, since those were the records. They are currently completing the month of October, and they will be able to meet the deadlines to which they have agreed. Going into the upcoming period

(next fiscal year), they will do the accounting for the unit trust based on trade date which is more in keeping with what other agencies and pension funds do.

Mrs. Braitman inquired as to how soon National City could merge the Bank One portfolio into a common custody arrangement. "Are there any needs or timing issues?" Mr. Cockrell responded that there is no issue other than National City would like to know what the assets are. They would rather not have \$2 billion to move on a single day if they can have two days and move \$1 billion on each.

Following some further discussion,

**MOTION** duly made by Steve Miller, seconded by Nancy Turner and unanimously carried that the Board reaffirm its intent to have a consolidated rate of return for the year 7/1/97 to 6/30/98 for all funds under its control (except for the Pension Relief Fund and certain other accounts).

**MOTION** made by Dwayne Isaacs, seconded by Nancy Turner and unanimously carried that the most feasible approach to achieve this is to use settlement date without accruals for this accounting period, and the PERF staff is directed to so proceed.

**MOTION** duly made by Teresa Ghilarducci, seconded by Steve Miller and unanimously carried that the best approach to achieve the Board's objective for 7/1/98 and thereafter will be to use an accrual system with trade dates, and the PERF staff is directed to so proceed.

**MOTION** duly made by Nancy Turner, seconded by Dwayne Isaacs and unanimously carried to direct Mark Webb to move as soon as possible, in accordance with National City's readiness, to transfer all funds to National City from Bank One.

### 3. STATUS OF FUNDING NEW INVESTMENT MANAGER ACCOUNTS

Karen Franklin, National City Bank, noted that in earlier correspondence from PERF it had been recommended that National City move money from the existing S&P 500 account to fund the four new manager accounts and to do that simultaneously on one day. However, National City would prefer to stagger this movement with enough time in between each to make sure everything is completed properly. Thus,

**MOTION** duly made by Steve Miller, seconded by Dwayne Isaacs and unanimously carried to direct Mark Webb to accomplish the move of the S&P Index Fund from Northern Trust to Barclays Global Investment as soon as possible, in accordance with National City's readiness.

**MOTION** duly made by Nancy Turner, seconded by Teresa Ghilarducci and unanimously carried that the funding of the remaining new manager accounts should be accomplished as soon as it is feasible following the unit trust accounting system being operational, and following PERF's Controller's concurrence that the timing is appropriate.

4. UPDATE ON NEW ANNUITY SAVINGS ACCOUNT CHOICES

Mary Beth Braitman noted that the Board had previously made the decision to have five different investment options available to PERF members. There are several critical areas which need attention. One is the options themselves and how they are going to fit with the unit trust structure. That should be in place for Board discussion at the June meeting. The second aspect is how the members will be educated concerning their options. Previously the Board had expressed a great deal of interest and concern in the education process and wanted to be sure that members had a good and accurate understanding of their options and how to move forward in making their elections. A third aspect is employer education. Also, all of this requires integration of the PERF benefits structure and system (payments will be made to individuals based on the value of their new investments), integration with National City Bank and the unit trust system (how the investment of these assets will flow to the different money managers), and integration with the PERF systems so that all the staff will know how the dollars are invested for a particular person and the value of their account. Thus, there are a number of things which need to begin to come together to enable PERF to be up and running on 7/1/98 to start accepting the investment elections and on 10/1/98 to have all of the investments converted and, therefore, able to retrieve the information in the most efficient, effective way.

Patrick Lane continued with a review of the employee/employer education which has occurred to date. He reported that over the last three months PERF has gotten word of the new investment options out to its membership by utilizing a process consisting of three separate educational meetings. The 75 largest employers (representing 60-65% of employee membership) were invited to attend --- approximately 2/3 of those invited did attend. In those meetings PERF staff described the Board's new investment philosophy and how it will affect members' investment options in the annuity savings accounts. Additionally, a newsletter with a basic introduction of the five new investment options was mailed to PERF membership the first of May. That mailing has already generated phone calls and questions with people wanting financial advice. Currently, staff is in the process of looking at ways to handle phone calls wherein information on the options available can be disbursed without leading individuals into making certain option selections. A second newsletter is planned which will explain in more detail the S&P 500 and the Russell 2000 as well as providing other outlets of information (Internet, Intranet, etc.). Staff is also looking at opportunities of implementing a call center to handle questions. Chairman Doermer asked that the Benefits Committee, working with the PERF consultants and staff, meet prior to the June Board meeting to address the matter of developing a procedure to follow in responding to telephone inquiries concerning the new options.

Mr. Lane noted that the Board also needed to consider the matter of implementing fees associated with equity investment options such as those currently in place for the bond and money market funds. This matter will also be an agenda item for discussion at the June Board meeting.

5. CONTRACTS

With respect to contracts for the four newly-hired investment managers, Mr. Webb informed the Board that he has contracts, signed by the managers, for everyone except J. P. Morgan. Morgan has proposed essentially that their portfolio for PERF (both large and small cap) would contain a number of stocks that are not in each applicable index. They communicated to Mr. Webb that pursuant to their outside counsel, if they executed a contract, they would be at risk given the securities which would be in the PERF portfolio. Because of this disagreement, the contract is at an impasse. Essentially what they have asked is that PERF consider amending their investment policies to contain the following language:

The common stock of companies other than those which comprise the index **that are contained in the benchmark index or that exhibit substantially similar characteristics to those that are contained in the benchmark index** are prohibited unless specifically approved by the Board.

**MOTION** duly made by Steve Miller, seconded by Teresa Ghilarducci and unanimously carried to amend PERF's investment policy as so stated.

Preliminary to the discussion of expiring contracts, Chairman Doermer noted:

As those of you who are here in consulting roles are well aware, this is a significant transition period for us. There is a little bit of concern on the part of some that what we should do with these expiring contracts, which expire June 30, is ask if the consultants would agree to a six month extension, during which time both the consultant and the PERF staff can discuss largely definitional questions with respect to who does what and what purpose is being served by that work. I would reiterate that which I know to be the feeling of the Trustees that we are very pleased with the work that you've been doing for us, and suggesting such an extension is not to be taken as any reflection or reservation about the quality of what you've been doing. Rather, it would be good business for us, at this particular juncture, to clarify some of these roles.

Following some discussion, it was agreed that Mark Webb would work with each of the consultants to seek to redefine, as appropriate, their contract language.

6. EXECUTIVE SESSION

An Executive Session of the Board was called to discuss a personnel matter with respect to the selection of an Interim Director. Following completion of that Executive Session:

**MOTION** duly made by Teresa Ghilarducci, seconded by Nancy Turner and unanimously carried to appoint Mark Webb as the Interim Director.

7. ADJOURNMENT

There being no further business, a Motion to adjourn was entertained, and by unanimous vote the meeting was adjourned.

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Richard T. Doermer  
Chairman

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Mark C. Webb  
Interim Director